

Message Text

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ACTION EA-14

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FM AMEMBASSY JAKARTA
TO SECSTATE WASHDC 1605
INFO AMCONSUL MEDAN
AMCONSUL SURABAYA

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E.O. 11652: N/A

TAGS: ECON, ID

SUBJ: NEW TAX ON FOREIGN PERSONNEL

1. SUMMARY: GOI ANNOUNCED MARCH 26 THAT FOREIGN COMPANIES NOT MEETING OBLIGATION TO HIRE AND TRAIN INDONESIANS TO REPLACE EXPATRIATES MUST PAY TAX OF \$100 PER MONTH PER FOREIGN EMPLOYEE, EFFECTIVE APRIL 1. NEW TAX WILL BE DIFFICULT TO ADMINISTER OBJECTIVELY IN MANY CASES IN THE ABSENCE OF AGREED CRITERIA FOR INDONESIANIZATION, AND MAY CREATE ADDITIONAL CLOUD IN ALREADY TROUBLED FOREIGN INVESTMENT ATMOSPHERE. FOLLOWING BASED MOSTLY ON PRESS REPORTS. END SUMMARY. END LIMITED OFFICIAL USE.

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2. DECISION TO TAX FOREIGN COMPANIES WHICH ARE LAGGARD IN HIRING AND TRAINING INDONESIANS WAS MADE MARCH 26 AT LIMITED CABINET SESSION ON SOCIAL WELFARE MATTERS CHAIRED BY PRESIDENT SUHART. ACCORDING GOI SPOKESMAN MASHURI
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WHO ANNOUNCED NEW TAX, MANY FOREIGN COMPANIES AND JOINT

VENTURES ARE NOT FULFILLING TERMS OF INVESTMENT AGREEMENTS WHICH REQUIRE GRADUAL INDONESIANIZATION OF THEIR TECHNICAL AND MANAGEMENT PERSONNEL AFTER FIRST YEAR OF OPERATION. MASHURI SAID RECEIPTS FROM NEW TAX WOULD BE USED TO FUND GOVERNMENT FACILITY TO TRAIN INDONESIAN EXPERTS TO FILL SUCH POSITIONS.

3. DAY AFTER TAX ANNOUNCED DEPUTY CHAIRMAN INVESTMENT BOARD A. SUHUD EMPHASIZED TAX WOULD NOT APPLY TO FOREIGN FIRMS ALREADY FULFILLING TRAINING REQUIREMENTS AND ADMITTED CLARIFICATION NEEDED ON HOW TAX WOULD OPERATE. SUHUD SAID NEW TAX WOULD NOT ADVERSELY AFFECT FOREIGN INVESTOR INTEREST IN INDONESIA, AND IS AIMED ONLY AT FIRMS "TOO BUSY" TO TRAIN INDONESIANS. HE SAID INDONESIA DOES NOT NEED LAW SUCH AS ONE RECENTLY ENACTED IN THAILAND BARRING FOREIGN EXPERTS FROM CERTAIN FIELDS, AND THAT FOREIGN EXPERTISE STILL NEEDED IN INDONESIA, ALTHOUGH TRAINING EFFORT IN INDONESIA MUST BE ACCELERATED. END UNCLASSIFIED.

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4. COMMENT: NEW TAX REFLECTS GROWING PRESSURE WITHIN GOI FOR GREATER INDONESIAN PARTICIPATION IN FOREIGN ENTERPRISES, IN SOME CASES WITHOUT REGARD FOR ECONOMIC CONSIDERATIONS. PRELIMINARY SOUNDINGS INDICATE MANY FOREIGN BUSINESSMEN FEAR NEW TAX MAY BE CAPRICIOUSLY APPLIED, THUS CAUSING FURTHER UNCERTAINTY ABOUT INVESTMENT HERE. MOST U.S. FIRMS, ESPECIALLY LARGE BANKS AND OIL COMPANIES, HAVE SOLID RECORD OF HIRING AND TRAINING INDONESIAN TECHNICAL AND MANAGEMENT PERSONNEL AND SPEND FAR MORE THAN EQUIVALENT OF NEW TAX FOR TRAINING. HOWEVER, SOME FOREIGN FIRMS, NOTABLY LARGE JAPANESE COMPANIES, ARE GUILTY OF EXCESSIVE EXPATRIATE STAFFING AND NEGLECT OF TRAINING. EXPLANATION THAT NEW TAX WILL BE USED TO FUND GOVERNMENT TRAINING FOR SKILLS NEEDED BY FOREIGN COMPANIES SEEMS UNREALISTIC, SINCE THERE IS NO SUBSTITUTE IN MOST CASES FOR ON-THE-JOB TRAINING. FUNDAMENTAL PROBLEM FOR ALL INVESTORS IS CRITICAL SHORTAGE OF AVAILABLE, QUALIFIED INDONESIANS AND LENGTHY TRAINING AND EXPERIENCE REQUIRED FOR REASONABLY EFFICIENT REPLACEMENT OF EXPATRIATES. BEST LIMITED OFFICIAL USE

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APPROACH TO INDONESIANIZATION ISN DETAILED AGREEMENT REQUIRING SYSTEMATIC TRAINING OF INDONESIANS AND REPLACEMENT OF EXPATRIATES OVER SPECIFIED PERIOD, BASED ON REALISTIC LENGTH OF TIME REQUIRED. SOME U.S. AND OTHER FOREIGN COMPANIES NOW OPERATE UNDER SUCH AGREEMENTS, BUT MANY DO NOT, AND THIS INCREASES CHANCES OF ARBITRARY IMPOSITION OF NEW TAX. METHOD IN WHICH NEW TAX IS APPLIED AND REASONABLENESS OF STANDARDS FOR INDONESIANIZATION WILL

BE IMPORTANT INDICATIONS OF FUTURE INVESTMENT CLIMATE.
NEWSOM

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